KEEPING UP WITH THE RETAIL CONSUMER

6 Supply Chain Disciplines Retailers Must Master

Developed by Adelante SCM and LEGACY Supply Chain,
with foreword from Rick Blasgen, President and CEO, CSCMP

Keeping Up with *the Retail Consumer*

Table of Contents

State of the Retail 3PL Industry

By Mike Glodziak, President, LEGACY Supply Chain

Today's retail environment is driven by a well-informed consumer with seemingly limitless buying options. The way retailers' products are consumed, and the landscape in which they are delivered continues to evolve at a rapid pace. Whereas stock-outs or shipping delays used to cost retailers in terms of transactional sales- lack of supply chain execution today can often erode a brand's reputation. So what do we, as stakeholders in the retail supply chain, do to keep up?

> "Without a doubt, the number one competitive advantage for both retailers and supply chain providers today is having talented people across all levels of the supply chain."

A company culture where talented people can thrive and innovate has become paramount for sustaining success. The retailers who do it right start with people; placing priority on developing a strong team of in-house supply chain experts coupled with strategic outsourced service provider partnerships.

The relationship between retailer and service provider has become more collaborative, built on a single focus - satisfying the end consumer. This collaborative environment requires retailers to challenge their supply chain partners to take a leading role in providing long-term business solutions rather than short-term cost cutting relief. Five years ago, did we think same day delivery was possible? Today, the voice of the consumer has mandated shorter and shorter delivery windows - forcing retailers and service providers to innovate and solve problems together.

We co-wrote this eBook with Adrian Gonzalez to provide perspective on the supply chain landscape in which we all operate, and to help retailers of all sizes evaluate their own supply chain competencies. We cover 6 supply chain disciplines that retailers must master – and those same 6 apply for service providers. 3PLs must continually invest in delivering supply chain visibility, must provide strategic supply chain insight, and must continuously develop innovative solutions to retail challenges. Supply chain metrics that are not collaborative in nature and do not drive performance for both retailer and provider should not be utilized. We must act as partners in defining how the retail supply chain delivers product to the right place, at the right time, and for the right cost.

Foreward from CSCMP

By Rick Blasgen, President and CEO, CSCMP

If you're in the retail side of business—and who isn't these days, especially if you work in the supply chain or logistics management space—you need to read Adrian Gonzalez's latest book, Keeping Up with the Retail Consumer.

In a clear and highly readable format, Adrian's book examines the changing face of retail today, and offers insight into how to manage this sea change. He explores some of the trends impacting the business, such as how personalized retailing is replacing mass merchandising, the diminishing roles that shopping malls play in sales, and the rise in e-commerce, all of which are significantly affecting retail supply chain networks. The book maps out six essential areas—supply chain visibility, supply chain mapping & visualization, supply chain risk management, supply chain design, supply chain business intelligence, and talent retention & workplace culture development—that leaders must become proficient in if they are to drive growth and profitability in the retail environment. It also provides a roadmap for creating efficient supply chain operations that can enable retailers to increase sales and gain new market shares.

> "Today's retailers are confronted with a number of issues and challenges this book can help you manage."

First and foremost, the total customer experience through all distribution channels is critical. Customer acquisition and retention remains top of mind. Cybersecurity is of paramount concern as consumer data has to be safe and secure. Retailers are focusing more on core competencies and outsourcing other functions to trusted partners as business becomes increasingly complex. Mobile connectivity through consumer-decided social networks is extremely important so that retailers can "listen" to their customers. Talent acquisition and retention is still a top priority as retail is, at its core, a people business. Finally, the localization of offerings is a significant initiative from sourcing to delivery. Adrian presents workable ways to navigate them all.

The book provides readers with proven strategies to use the six disciplines to drive continuous improvement across their supply chains. Key skills and capabilities that retailers must possess are also covered: relationship building, omni-channel marketing and procurement, data security, social networking, and enterprise data analysis.

Keeping Up with the Retail Consumer is well-researched with supporting references and data, and includes a maturity model and assessment questions as a framework and guide for your own continuous improvement journey. Get a copy of Adrian's new book, and get the inside track on the future of successful, global retailing.

Rick D. Blasgen

CSCMP

An Introduction to Keeping Up with the Retail Consumer

By Adrian Gonzalez,
Founder and President of Adelante SCM

We, consumers, are largely responsible for the transformation occurring in the retail industry. Armed with smartphones and ubiquitous Internet connectivity, we are shopping online more, which is redefining the role of physical stores and how products are delivered. We are less patient than in the past: with a single click, we want to instantly compare prices across retailers, check stock availability, and place an order -- and we want it delivered tomorrow for free, or available for pick up at a nearby store within an hour.

> “Simply put, the era of mass merchandising is giving way to a new era: personalized merchandising where retailers are customizing their offerings for each consumer instead of taking a one-size-fits-all approach. “

E-commerce and omni-channel fulfillment, however, are not the only factors impacting retail supply chains. As retailers continue to expand globally, both from a sourcing and selling standpoint, they have to deal with new competitors, currency fluctuations, importing and exporting challenges, regulations, trade agreements, and labor availability (among other risks and challenges).

Therefore, in light of all these trends, how can retailers drive profitable growth moving forward? More specifically, how can supply chain and logistics operations help retailers increase sales, gain market share, and improve margins?

That is the central question we will address in this paper—and we will do so not by diving into every facet of supply chain management, but by focusing on the six fundamental disciplines that support virtually all supply chain processes, and that retail leaders of tomorrow will have to master:

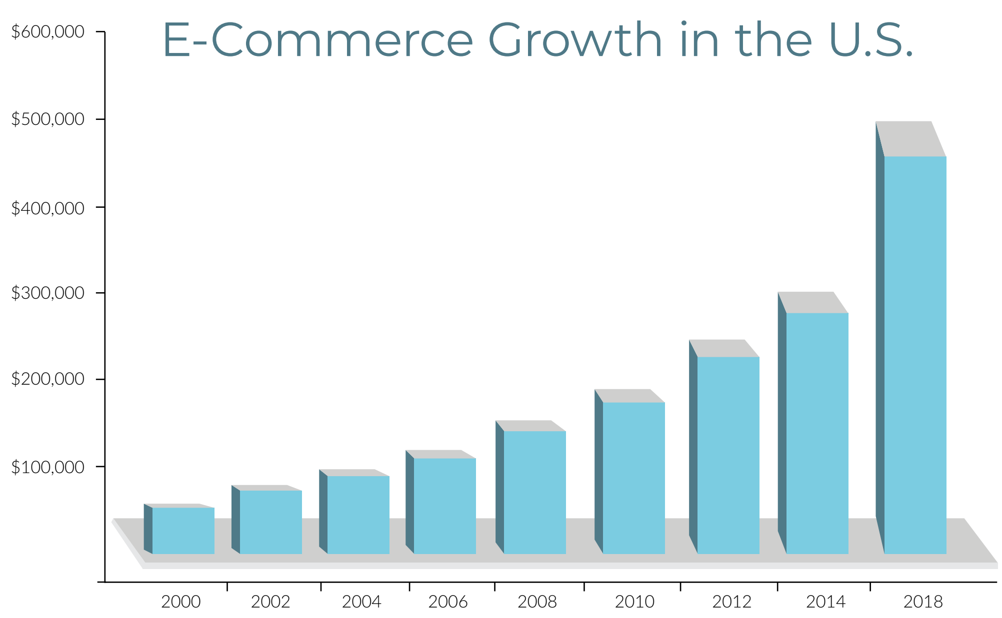
- Supply Chain Visibility
- Suppy Chain Mapping & visualization
- Supply Chain Risk Management
- Suppy Chain Design
- Supply Chain Business Intelligence
- Talent Retention & Workplace Culture Development

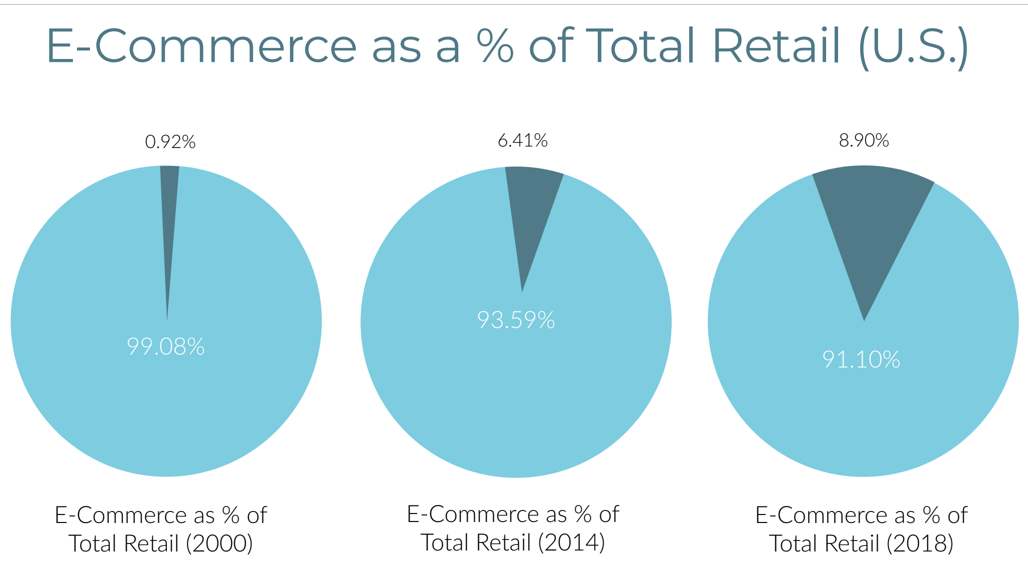
We will discuss the role and importance of each discipline from a maturity model perspective, and provide a short list of assessment questions for retailers to use as a guide for continuous improvement.   We will also discuss the role third-party logistics providers (3PLs) can play in helping retailers become more agile and flexible.

ADELANTE

The Impact of E-Commerce on Retail Supply Chains

E-commerce is still a small fraction of total retail sales, but it's a fast growing segment of the market. According to U.S. Census data, e-commerce has grown from 0.92 percent of total retail sales in 2000 to an estimated 6.47 percent in 2014 -- a compound annual growth rate (CAGR) of 18.8 percent, compared to a CAGR of 3.3 percent for total retail sales. By 2018, e-commerce will exceed $493 billion in the United States, or 8.9 percent of total retail sales[1], according to the research firm eMarketer[2].

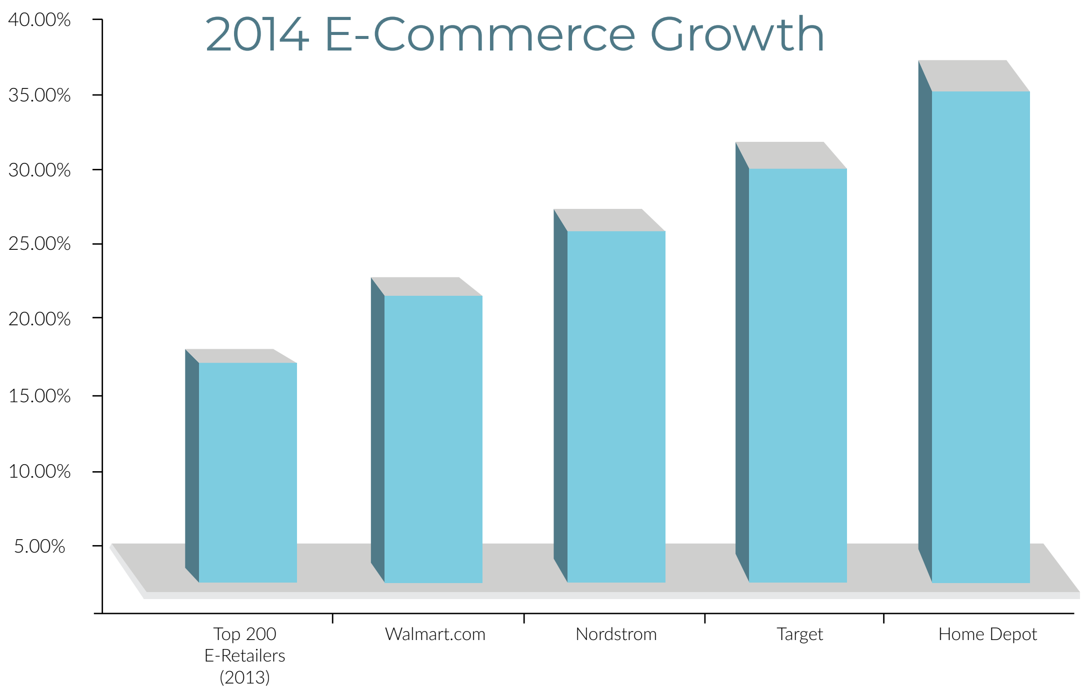




Although Amazon is the dominant leader in U.S. online sales,

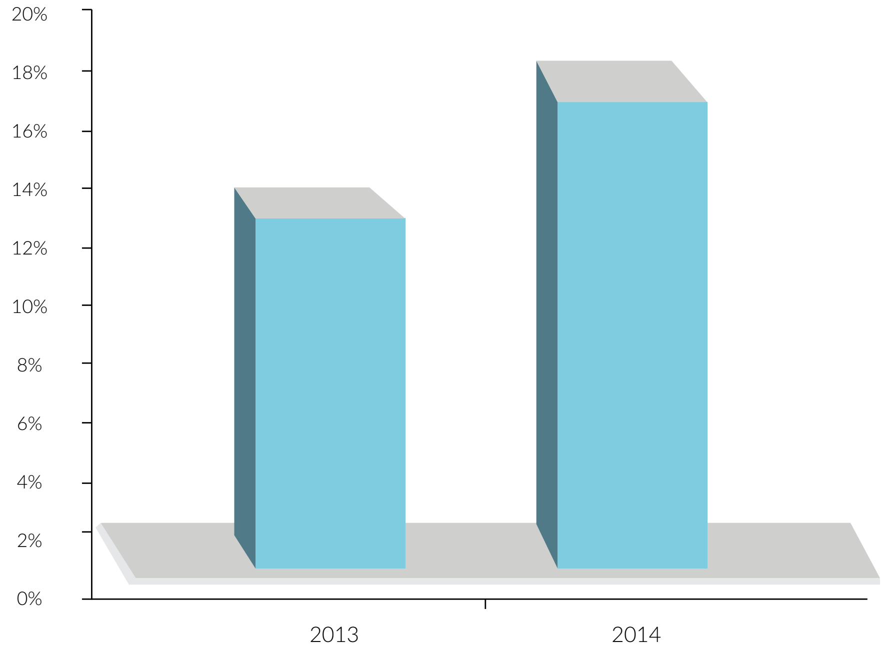
the Top 10 E-Retailers list is dominated by brick-and-mortar retailers, including Staples (#3), Walmart (#4), Sears (#5), Macy's (#8), and Office Depot (#9)[3]. According to Internet Retailer, the top 200 e-retailers experienced an average of 17.1 percent growth in onlines sales in 2013, and that percentage will almost certainly be surpassed in 2014 based on recent announcements from Walmart (22% growth in 2014), Home Depot (36% growth)[4], Target (30% growth)[5] , and Nordstrom (26% growth)[6].

This growth in e-commerce is driving retailers to implement omni-channel fulfillment strategies, which involves "the integration of processes, information systems and infrastructure, including property, to enable the retailer to meet customer demand from whatever location is positioned to provide the best customer experience."[7]



What we're seeing, as a result, is the traditional roles of distribution centers, stores, and even transportation providers changing.

Retail stores, for example, are becoming fulfillment centers, where online orders are picked, packed, and shipped to consumers (with same-day delivery a growing trend), or where orders are picked and staged for customers to pick-up themselves within an hour (aka "click and collect").

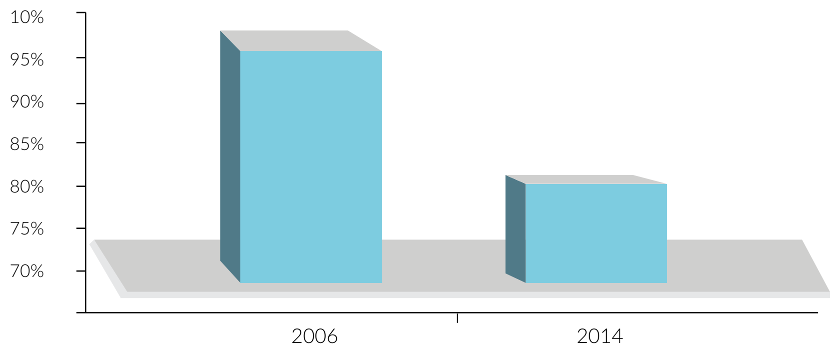


On the transportation front, numerous startups, such as Deliv, are partnering with retailers to provide same-day delivery services to consumers, while Amazon, Google, eBay, and Uber are also launching local delivery services of their own – all of which is putting competitive pressure on FedEx, UPS, and USPS. And further down the road, we might see the birth of a completely new transportation mode: drones, as Amazon, Google, DHL, UPS, and others continue to develop and test the technology, and put pressure on the FAA to allow their commercial use.

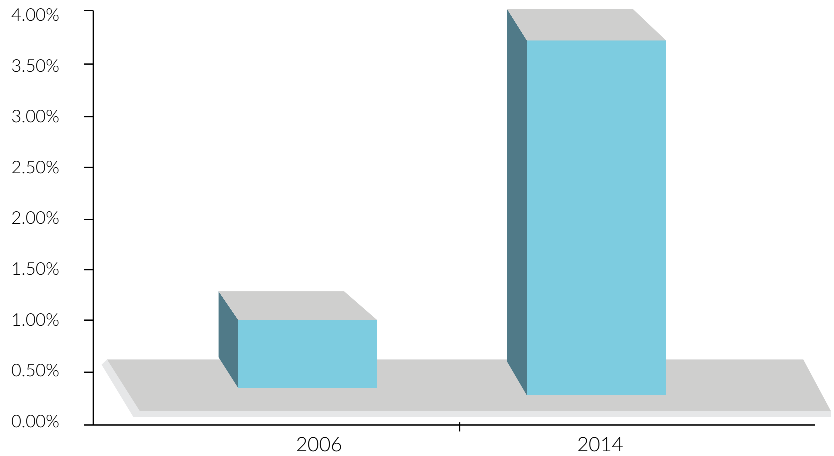
Two additional trends shine a light on how retail supply chain networks are changing: the declining role of shopping malls, and the type of distribution facilities retailers and third-party logistics providers are investing in today compared to just a few years ago.

According to CoStar Group, a provider of commercial real estate information, the number of malls with vacancy rates greater than 40 percent -- which generally means the mall is in “a death spiral” -- has increased from less than 0.5 percent in 2006 to 3.4 percent in 2014.[8] And according to real estate research and consulting firm Green Street Advisors, “Since 2010, more than 24 enclosed shopping malls have closed, and 60 more are on the brink of closure…About 15% of U.S. malls will fail or be converted into non-retail space within the next 10 years.”[9]

% of Malls "Healthy"



% of Malls > 40% Vacant



The rise of e-commerce is just one of several factors contributing to the demise of malls, and some malls, particularly those with high-end stores and clientele, are thriving.

But it's clear, nonetheless, that shopping malls will cater to a smaller niche of consumers moving forward, and thus play a diminished role in retail supply chains.

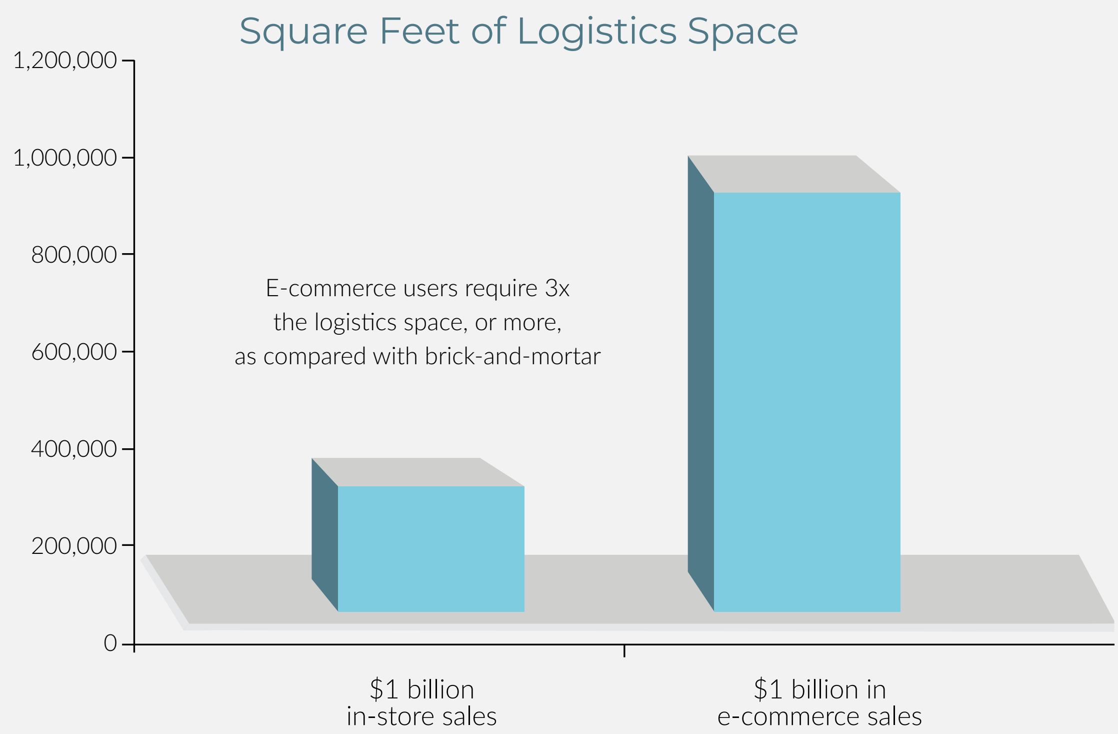
Traditional distribution networks and facilities were originally designed to flow truckloads of products from large distribution centers to stores. Today, retailers and third-party logistics providers are changing their network designs and facilities to enable omni-channel fulfillment and faster delivery times. As mentioned earlier, stores are now serving as fulfillment centers, and retailers are also setting up local depots in large urban areas to "either cross-dock items shipped from larger e-fulfillment centers or to ship certain 'fast moving' products direct to customers."[10]

Further up the distribution chain, as e-commerce volumes grow, so will the need for more logistics space.

According to the industrial real estate firm Prologis, “e-commerce users require 3x the logistics space, or more, as compared with brick-and- mortar” due to a variety of factors, including the need to carry a broader variety of SKUs, the need to carry greater levels of buffer stock, the allocation of space for returns processing, and the fact that individual order picking, packing and shipping direct to consumers requires more space than store distribution.[11]

From Prologis’ perspective, “Retailers will continue to proceed along the arc of e-commerce fulfillment requirements, initially growing within existing distribution networks, then leveraging multi-tenant facilities and 3PLs to scale and ultimately requiring dedicated facilities. As online retailers reach sufficient size and scale, fulfillment models will emphasize proximity to major population centers, allowing for faster delivery times, higher service levels and greater flexibility in the supply chain.”

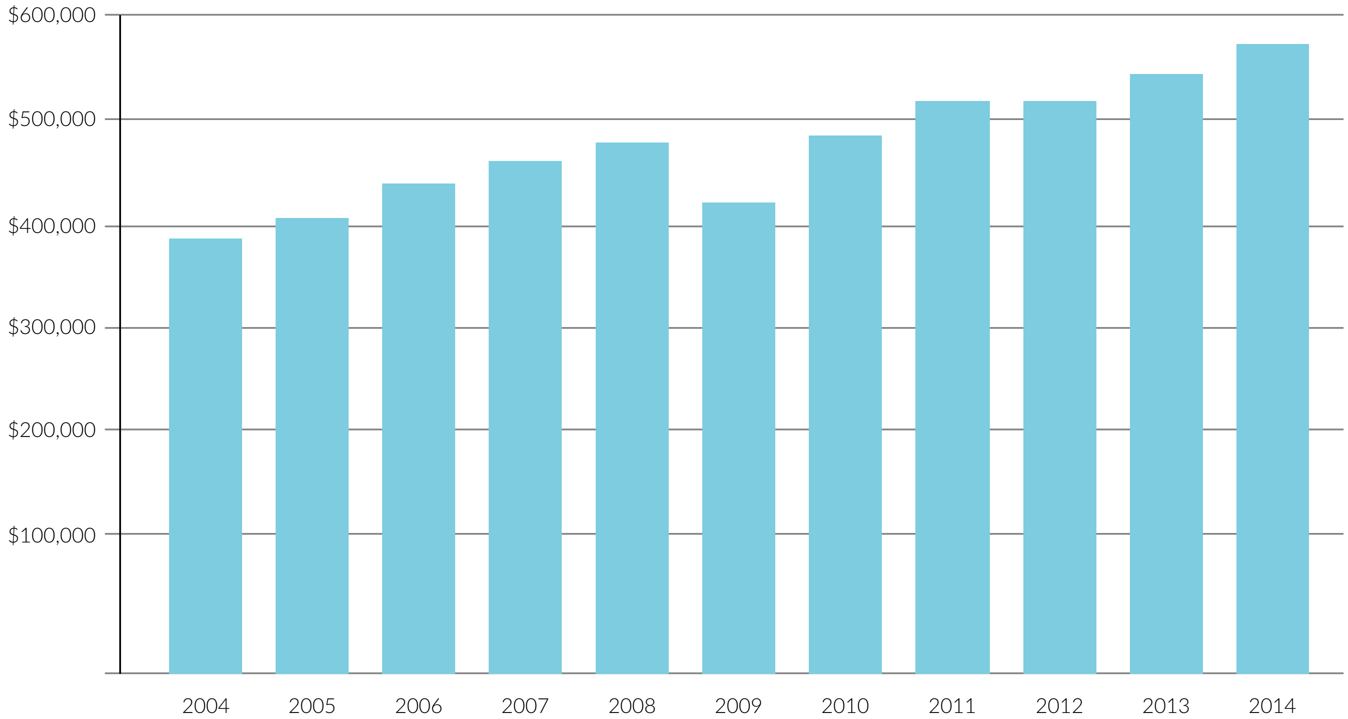
The bottom line: traditional distribution networks and processes were built around yesterday’s consumer — who shopped almost exclusively at stores and malls, and who didn’t mind waiting 3-5 days for delivery — but new distribution networks and processes are emerging for a new generation of consumers, who will shop more online (especially on mobile devices) and expect same-day shipping and delivery, or click-and-collect within an hour, as a standard offering.

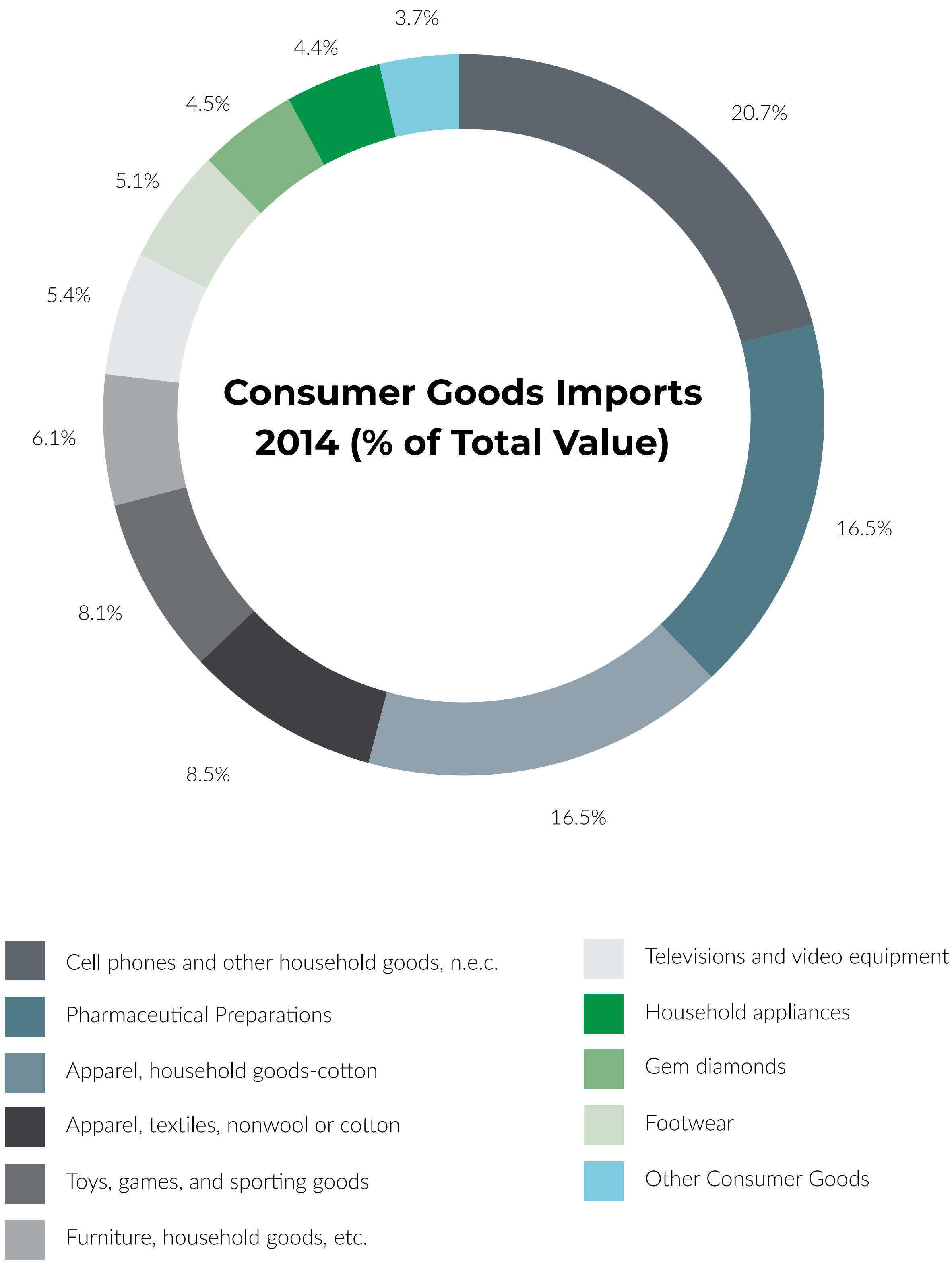


The Risks and Complexities of Global Sourcing and International Transportation

Trends in global sourcing and international transportation are also changing the retail supply chain landscape. According to U.S. Census data, imports of consumer goods products was nearly $558 billion in 2014, up from almost $373 billion in 2004 — a CAGR of 4.1 percent over the past decade.[12]

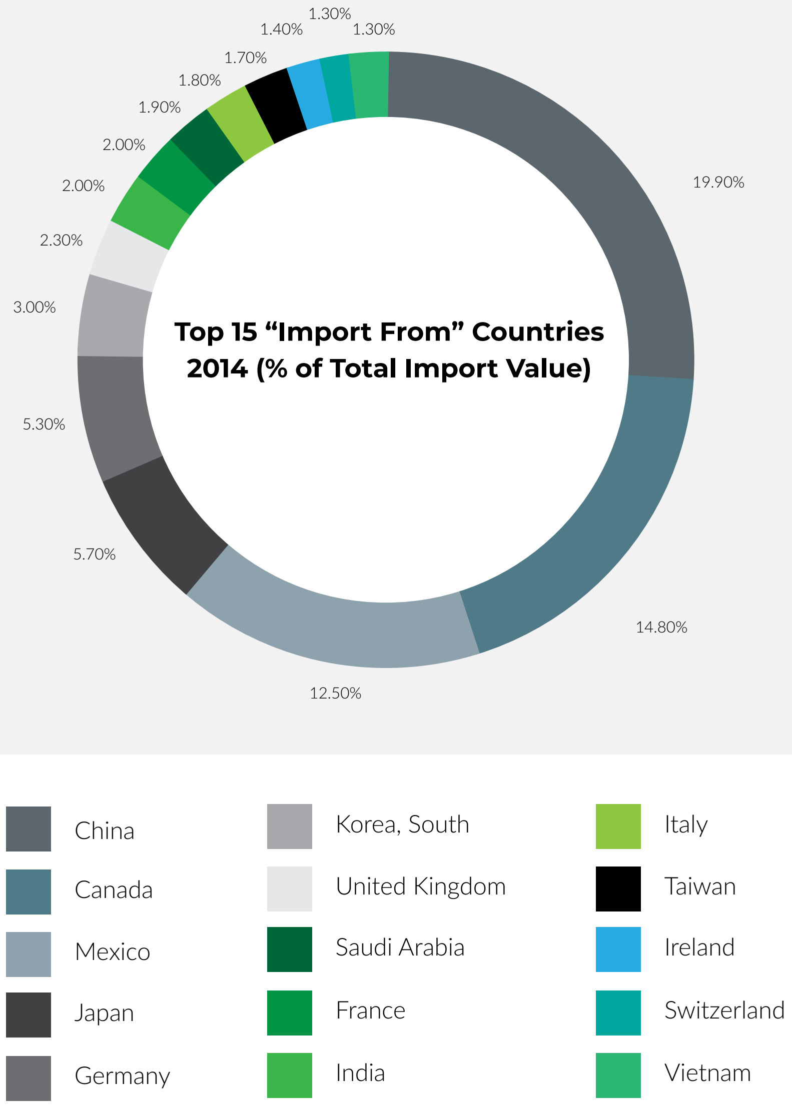
Import Value ($ Millions)




Consumer Goods Imports 2014 (% of Total Value)
20.7%
16.5%
16.5%
8.5%
8.1%
6.1%
5.4%
5.1%
4.5%
4.4%
3.7%
Cell phones and other household goods, n.e.c.
Pharmaceutical Preparations
Apparel, household goods-cotton
Apparel, textiles, nonwool or cotton
Toys, games, and sporting goods
Furniture, household goods, etc.
Televisions and video equipment
Household appliances
Gem diamonds
Footwear
Other Consumer Goods

Over the same time period, imports from China to the United States increased 137 percent —

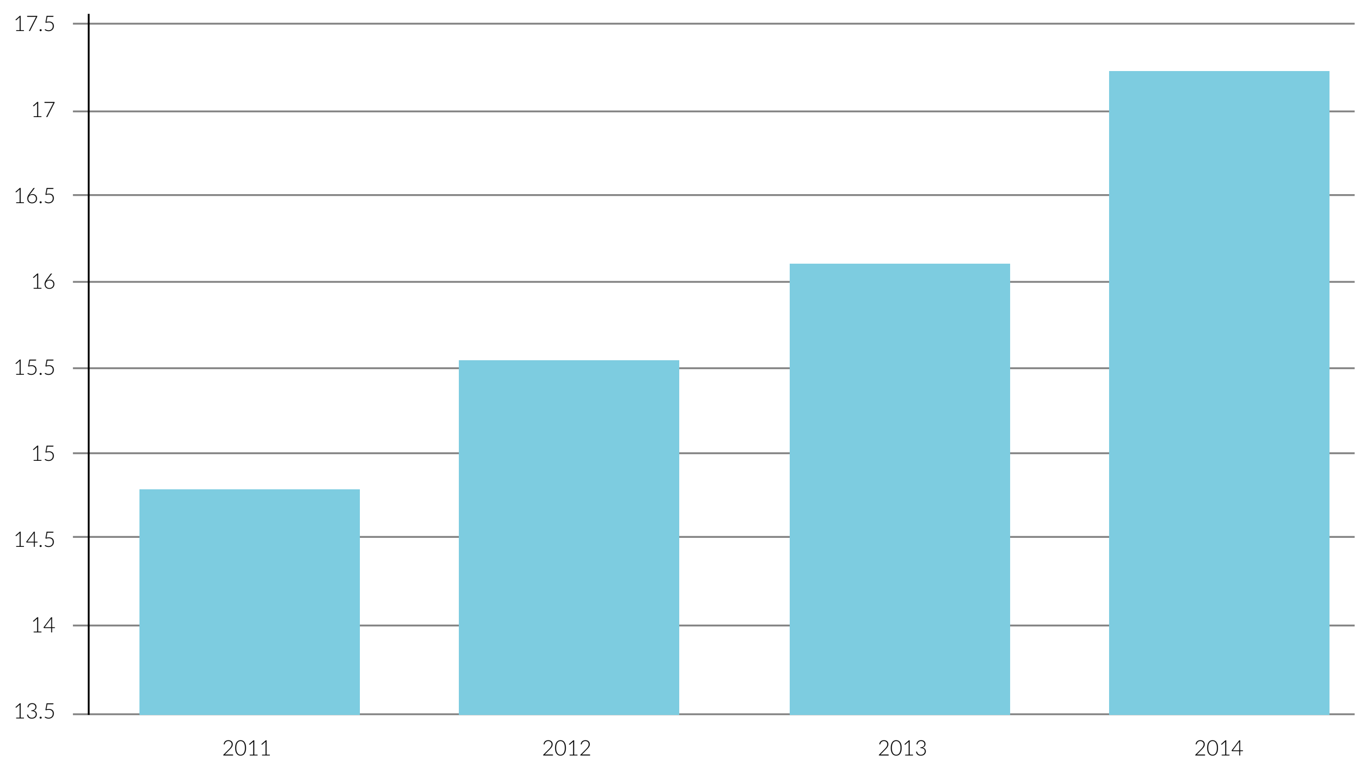
from $196.7 billion in 2004 (representing 13.4 percent of total import value, including non-consumer goods items) to $466.7 billion in 2014 (almost 20 percent of total import value).[13] Imports from other countries also increased significantly from 2004 to 2014, such as Vietnam (477 percent), India (192 percent), and Mexico (89 percent). The top five "import from" countries in 2014 -- China, Canada, Mexico, Japan, and Germany -- accounted for 58.2 percent of total import value last year, compared to 55.5 percent in 2004.[14]



This all translates into growing container volumes through the ocean ports, which accounts for the lion's share of imports, as well as increased truckload, rail, and intermodal traffic to and from the ports and across the U.S.-Mexico and U.S.-Canada borders.

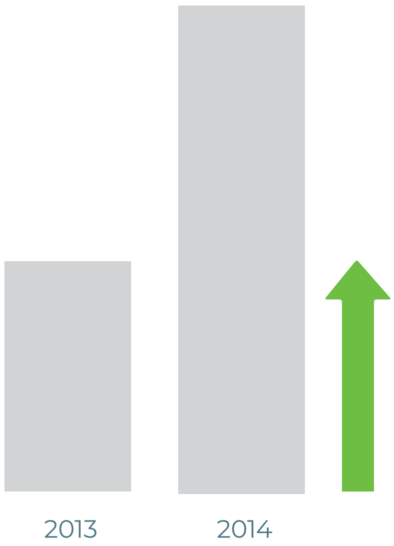
According to the National Retail Federation's Global Port Tracker, container volumes through the major ocean ports in the United States increased from 14.84 million TEUs in 2011 to 17.3 million TEUs in 2014, a 16.6 percent increase. NRF expects container volume to reach 8.8 million TEU in the first half of 2015, which would be a 5.8 percent increase over the same period last year.[15]

Container Volume at Major U.S. Ocean Ports (Millions of TEU)



Although China and other Asian countries still account for a significant percentage of retail import volumes, trade with Canada and Mexico is also on the rise, as retailers look to reduce lead times and safety stock by sourcing products closer to the U.S. Many retailers are also opening stores in these countries as a growth strategy, which means their distribution networks are extending across the U.S. borders.

According to the U.S. Department of Transportation, U.S. trade with NAFTA partners Canada and Mexico exceeded $1.19 trillion in 2014 (imports and exports combined), up 4.5 percent from 2013.[16]



In December 2014, trucks carried 59.2 percent of U.S.-NAFTA freight overall and accounted for 54 percent of imports, while rail was the second largest mode, moving 15.1 percent of all U.S.-NAFTA freight and 17.9 percent of imports. Compared to December 2013, U.S.-NAFTA freight flows by truck and rail increased 9.3 and 8.3 percent, respectively.

But as global sourcing and transportation volumes grow, so do the risks and complexities.

The recent labor dispute at the West Coast ports is just one example. The incident greatly disrupted retail supply chains, with more than 30 ships at one point anchored at sea waiting to get unloaded. As reported in the Wall Street Journal, “The West Coast port chaos is just the latest event prompting shippers to both diversify transportation modes and ports. Hurricanes, a winter involving polar-vortex weather, or labor issues all can trigger severe product delays or even empty shelves, costing companies tens of millions of dollars.”[17]

However, the larger challenge facing the ports, especially in the United States is the need to increase port productivity as larger ships replace smaller vessels.

A report by the Journal of Commerce — Berth Productivity: The Trends, Outlook and Market Forces Impacting Ship Turnaround Times (July 2014) —summarizes the challenge nicely:

“

If there’s an issue in the container shipping world that’s hotter than port productivity, I’m not aware of it.

As mega-container ships replace smaller vessels in major east-west and north-south trades, terminals are struggling to turn the ships around and move containers through their facilities in a timely manner...Ships are growing at an accelerating, some would say alarming, rate as carriers become fixated on reducing operating costs as the key to profitability. That’s ratcheting up pressure on terminals to perform, because carriers can’t realize the potential cost savings of their mega-ships if they’re always playing catch-up to stay on schedule because of port delays, which raise fuel costs. The consequences of being late are growing because, as mega-ships take up more time at port, berth windows are harder to find, particularly if the ship arrives late, putting the already tardy vessel even further off its schedule.

The productivity and capacity issues extend beyond the ports, with similar issues affecting trucking and rail transportation too, caused by (among other things) a shortage of drivers and rail workers and regulations such as Hours of Service.

Couple these transportation-related challenges with new trade agreements in the pipeline, such as the Trans-Pacific Partnership, fluctuations in currency exchange rates and labor costs around the world, and ongoing changes in customs requirements and trade regulations, and the road ahead for retailers will be paved with more risk and complexity, which further underscores why retailers need to develop more flexible and responsive supply chains -- and it all begins with mastering the six fundamental supply chain disciplines discussed below.

The 6 Fundamental Supply Chain Disciplines that Retail Leaders of Tomorrow Must Master

In a conference call with investors in February 2015, Macy's CFO Karen Hoguet summed up the primary objective of most retailers today: "We are making investments in growth, we want to accelerate growth, but it needs to be profitable growth."[18]

How can supply chain management enable profitable growth? Getting to the answer requires retailers to take a broader, more strategic perspective of supply chain management, one that goes beyond defining supply chain excellence only in terms of cost reduction and control. More than ever before, excellence in supply chain management – especially in logistics functions – is about driving revenue growth, capturing market share, and enhancing customer satisfaction and loyalty. For example, many retailers are using delivery as a competitive weapon. In a market where consumers can find the same product for about the same price from multiple retailers, the ability to offer consumers less expensive (usually free), faster (trending toward same-day), and more flexible delivery options (such as deliver to store or locker) is what wins the retailer the sale and customer.

6
Fundamental
Disciplines

- Supply Chain Visibility
- Supply Chain Mapping & Visualization
- Supply Chain Risk Management
- Supply Chain Design
- Supply Chain Business Intelligence
- Talent Retention & Workplace Culture Development

Supply chain management spans many functions and processes, including:

- Demand Planning
- Sourcing
- Merchandising
- Distribution Management
- Supplier Relationship Management
- Inventory Management
- Inbound and Outbound Transportation
- Store Operations

There are plenty of books and papers detailing leading practices in each of these functions, but ultimately, it's the alignment and synchronization of all these functions and processes that lead to supply chain excellence.

Rather than dive into the details of every end-to-end supply chain process – which are continuously evolving in response to changes in customer requirements, the competitive landscape, technologies, regulations, and other factors – let us focus instead on the six fundamental supply chain disciplines that enable or influence virtually all supply chain functions and processes: Supply Chain Visibility, Supply Chain Mapping & Visualization, Supply Chain Risk Management, Supply Chain Design, Talent Retention & Workplace Culture Development, and Supply Chain Business Intelligence.

Put differently, if retailers do not strive to master these six disciplines, their ability to innovate and drive continuous improvement across their supply chains will be hindered, and so will their pursuit of profitable growth.

Critical Processes for Retailers

- Cross-border e-commerce
- Reverse logistics (returns)
- Same-day, last-mile delivery
- Global trade management
- Distributed order management
- Multi-echelon inventory optimization

Below we provide a brief overview of each discipline and why they are important.

We also present a maturity model to help retailers assess their current capabilities in each discipline and to use as a framework and guide for continuous improvement. There are plenty of books and papers detailing leading practices in each of these functions, but ultimately, it's the alignment and synchronization of all these functions and processes that lead to supply chain excellence.

1. Supply Chain Visibility

There are many ways to define Supply Chain Visibility, but here's a simple definition: Having timely, accurate, and complete data and information related to orders, shipments, inventory, sales, costs, assets, and other supply chain related items.

Supply Chain Visibility enables companies to quickly and confidently answer the most common supply chain questions that arise every day: What's the status of my order? Where's my shipment or truck? How much inventory do we have across our network? Are products selling faster or slower than forecasted? What's the total cost to serve?

Supply Chain Visibility also helps companies to analyze more strategic questions, such as "If we flowed products differently across our network, what impact would it have on costs and lead time?"

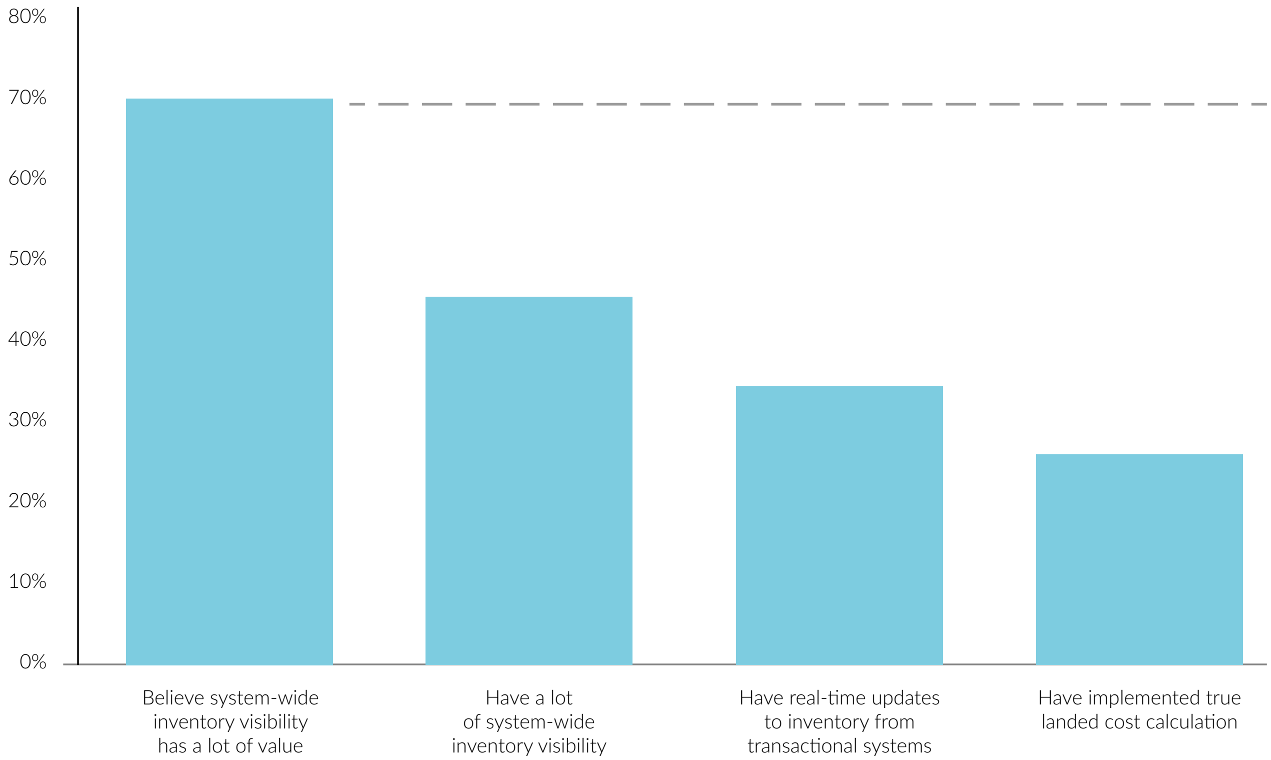
Unfortunately, achieving timely, accurate, and complete supply chain visibility remains an elusive goal for many companies. There are many reasons why:

- Supply chain data is stored in too many systems, in too many formats, across many companies and geographies.
- A lot of data/information is communicated in batch and serial mode, sometimes hours or days after a transaction or event occurs.
- Low-tech / no-tech processes still exist, especially in developing countries.
- Supply chain networks are reconfiguring at a rapid pace, so the challenge of connecting to new trading partners is ongoing.
- Nobody really owns or is accountable for supply chain visibility and data quality management.

In a survey of retailers conducted by RSR Research in May 2014, 72 percent ranked "system-wide inventory visibility" as having a lot of value (up from 45 percent in 2012), but only 47 percent reported having "a lot of visibility" in that area, virtually the same percentage as in 2012.[19]

In addition, only 34 percent of the retailers reported having "real-time updates to inventory from transactional systems" and only 31 percent said they have implemented "true landed cost calculation."

Retailers Falling Short on Visibility Capabilities



Simply put, Supply Chain Visibility is the water and oxygen of supply chain management.

Just like human life can't exist without water and oxygen, neither can supply chain excellence without timely, accurate, and complete Supply Chain Visibility.

2. Supply Chain Mapping & Visualization

Supply Chain Mapping and Visualization is basically an extension of Supply Chain Visibility, with a focus on location-based data and information. You can also view it as the "Where" dimension of Supply Chain Business Intelligence.

Supply Chain Mapping and Visualization facilitates the mash-up of different information, which can open the door to new, perhaps non-intuitive insights. What happens, for example, when you map sales of a particular product and overlay it with property values, median age, ethnic backgrounds, average income, average temperature and precipitation, crime rates, location of competitors, location of train stations and bus stops, and whatever else you can display on a map? The answers might surprise you.

Supply chain mapping & visualization also involves...

- Mapping the location (city, state, country) of all your suppliers' manufacturing sites, distribution centers, and "ship from" facilities for each high revenue, high volume, or high margin SKU that you buy.
- Mapping the flow of materials and finished goods from upstream suppliers, to Tier 1 suppliers, to your DCs, to your stores and consumers.
- Actively monitoring weather and other natural forces (hurricanes, floods, earthquakes, etc.) that could impact the manufacturing sites, distribution facilities, ports, and other locations involved in the fulfillment of your important SKUs.
- Actively monitoring non-natural factors, such as labor strikes, power outages, and quality issues that could impact the manufacturing sites, distribution facilities, ports, and other locations involved in the fulfillment of your important SKU.

The bad news is that few companies gather and track this information, which increases their risk of getting blindsided by a supply chain issue or disruption.

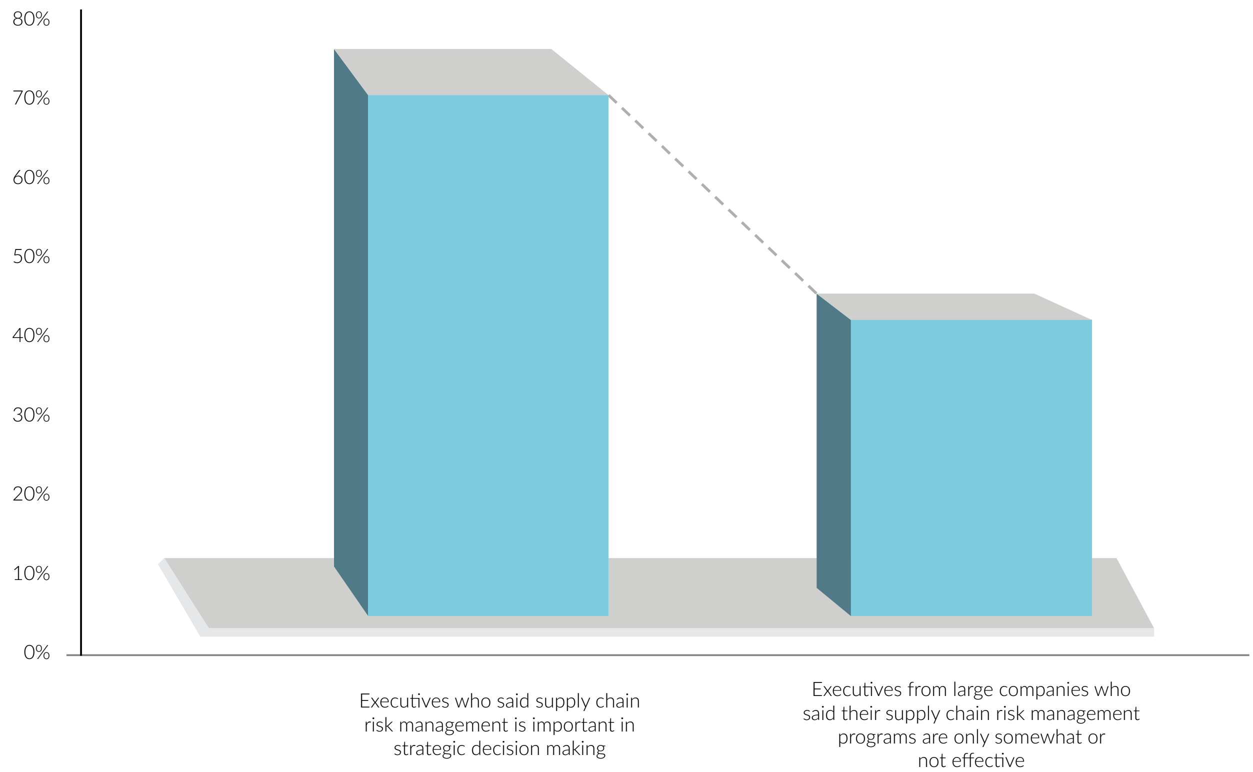
The good news is that there are new supply chain mapping and visualization and risk management software solutions available that companies can use to facilitate the process.

3. Supply Chain Risk Management

Supply chain management is risky business—and the risks are growing every day:

- Disruptions caused by natural events, such as hurricanes, earthquakes, and floods, as well as man-made events, such as labor strikes.
- Supply shortage due to a quality problem, supplier bankruptcy, or other issue.
- Transportation capacity constraints, especially in trucking and at ocean ports.
- The continued rise of trade protectionism, which is increasing the cost of imports and exports, as well as dampening demand for goods and limiting supply.
- The impact of currency rates on supply chain costs and product demand.
- Disruptions caused by IT service failures or security breaches.

Most companies recognize the importance of supply chain risk management, yet many of them are doing very little or nothing to improve their capabilities in this area. The consulting firm Deloitte surveyed 600 manufacturing and retail executives in 2013, and 71 percent of them viewed supply chain risk as "an important factor in their companies' strategic decision making, including 20 percent who view it as extremely important" — but 42 percent of the executives from large companies said their supply chain risk management programs are only somewhat or not effective.[20]

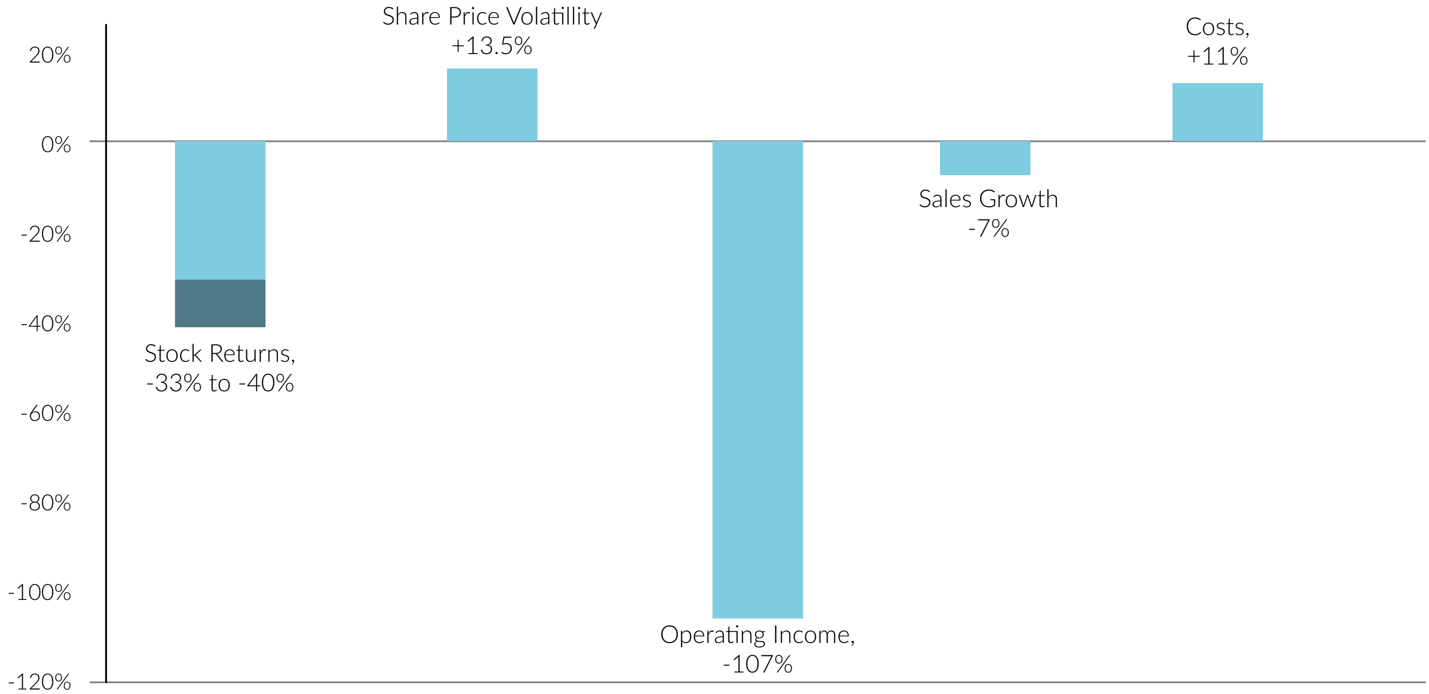


Why does Supply Chain Risk Management matter?

This question was definitively answered by Kevin Hendricks (The University of Western Ontario) and Vinod Singhal (Georgia Institute of Technology) in a research study that analyzed almost 800 instances of supply chain disruptions experienced by publicly traded firms and estimated their effect on long-term shareholder value, profitability, and share price volatility.[21]

As the chart below illustrates, the study found that:

"Supply chain disruptions have a negative across the board effect on stock price, profitability, and share price volatility. It does not matter who caused the disruption, what was the reason for disruption, what industry a firm belongs to, or when the disruption happened -- disruptions devastate corporate performance."



LEGACY SUPPLY CHAIN

Leading practices in supply chain risk management are well documented in various books and publications, such as Yossi Sheffi's "The Resilient Enterprise" and "Supply Chain Risk Management: A Compilation of Best Practices" published by the Supply Chain Risk Leadership Council.

Simply put, a great foundation of knowledge and experience already exists for retailers to get started.

The challenge is to make supply chain risk management part of the corporate DNA -- that is, to incorporate risk in the decision-making process at all levels of the supply chain, just like cost and service are today. Supply chain professionals need to get to the point where talking and thinking about risk is as common and instinctual as talking and thinking about cost and service. Unfortunately, at many companies today, risk rarely enters the conversation or analysis.

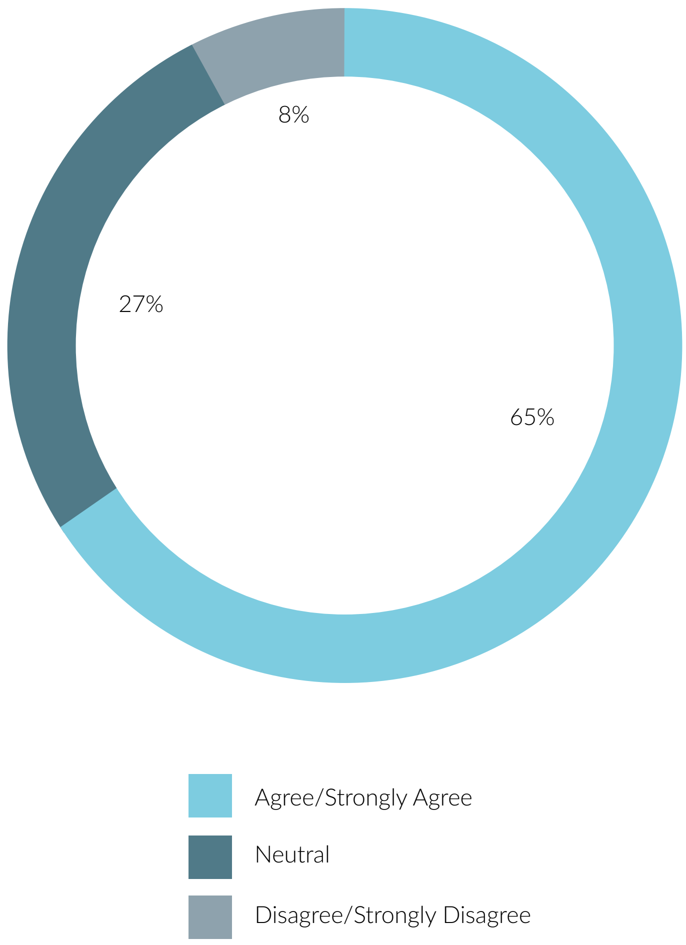
The first step is to ask "What are the risks?"

Whenever you're discussing supply chain strategy or decisions. Finding the answers will require a lot of data collection and hard work (another reason why Supply Chain Visibility and Supply Chain Mapping are so critical), but the return on investment will be clearly evident the next time a supply chain disruption occurs and you're able to recover faster and with less financial impact than your competition.

4. Supply Chain Design

Supply Chain Design is an emerging supply chain discipline that involves creating models to represent the structure and policies of your existing supply chain; using advanced analytics to find a better or more appropriate future state; and continuously running what-if scenarios to test new strategies and respond to changing market conditions.

In the RSR Research survey referenced earlier, 65 percent of the retailers agreed or strongly agreed with the following statement: “We are going to have to completely rethink our supply chain design in the next five years because of emerging cross-channel fulfillment.”



Historically, Supply Chain Design was an exercise companies undertook at most once a year, or when a significant change occurred in their supply chain, such as an acquisition. It was a strategic/tactical analysis, disconnected from day-to-day operations, and the software tools were difficult to learn and use.

Today, Supply Chain Design is becoming more operational and real-time, as companies have to respond more quickly and intelligently to fast-changing forces impacting their business—such as competitive threats, new regulations,and more stringent customer expectations. Best-in-class companies are either developing Supply Chain Design competency in-house or expecting it from their logistics service providers, and they are using the technology, which is more user-friendly and affordable than in the past, on a more frequent and consistent basis for Product Flowpath Analysis, Cost-to-Serve Optimization, Safety Stock Optimization, Tax/Duties Optimization, and Risk Management (among other things).

5. Supply Chain Business Intelligence

Supply Chain Business Intelligence (BI) is about empowering people, across all levels of the organization, to make smarter and faster business decisions by providing them with a more detailed, accurate, and timely understanding of their role in achieving the company's strategic, tactical, and operational goals.

BI is much more than a type of software application. It's really about changing the way people work and make decisions, from the CEO all the way down to the employee loading boxes onto a truck. In short, there are many facets to implementing a successful BI strategy, and they fall into the usual "people, process, and technology" categories.

Supply Chain Visibility, Supply Chain Mapping & Visualization, and Supply Chain Design are critical components and enablers of Supply Chain Business Intelligence.

But in order to reap the benefits, companies need actively measure and manage data quality, otherwise they will quickly find themselves in a "garbage in, garbage out" situation.

Equally important is having supply chain and logistics professionals who have the right mix of analytics, business, and relationship skills. In other words, companies need to hire and train the right people to realize the value of business intelligence -- that is, people who are not only good at manipulating and analyzing data, but also have a deep understanding of supply chain and logistics processes and have good business acumen.

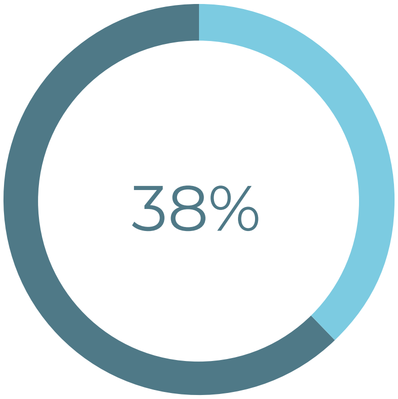
Finally, gathering and analyzing supply chain data and information is worthless if companies don't ultimately convert their insights into action. As the authors of the book Competing on Analytics state, "At a time when firms in many industries offer similar products and use comparable technologies, business processes are among the last remaining points of differentiation." Therefore, an important element of Supply Chain Business Intelligence is leveraging the insights obtained to identify and execute continuous improvement initiatives or innovation projects, as well as quantifying the benefits achieved from those initiatives and feeding back new learnings.

6. Talent Retention & Workplace Culture Development

Though not a traditional supply chain-specific discipline, the ever-increasing importance of having talented people across the supply chain makes Talent Retention and Workplace Culture Development a critical area of focus for businesses.

Talent & Retention is a Top Supply Chain Concern:

The field of supply chain management has rapidly become more and more complex. Intricate networks of global suppliers, constantly changing trade regulations, volatile political and economic environments, rapidly advancing technology, and a heightened focus on supply chain as a critical component of the overall business - all have contributed to a new set of job skill requirements for supply chain professionals.



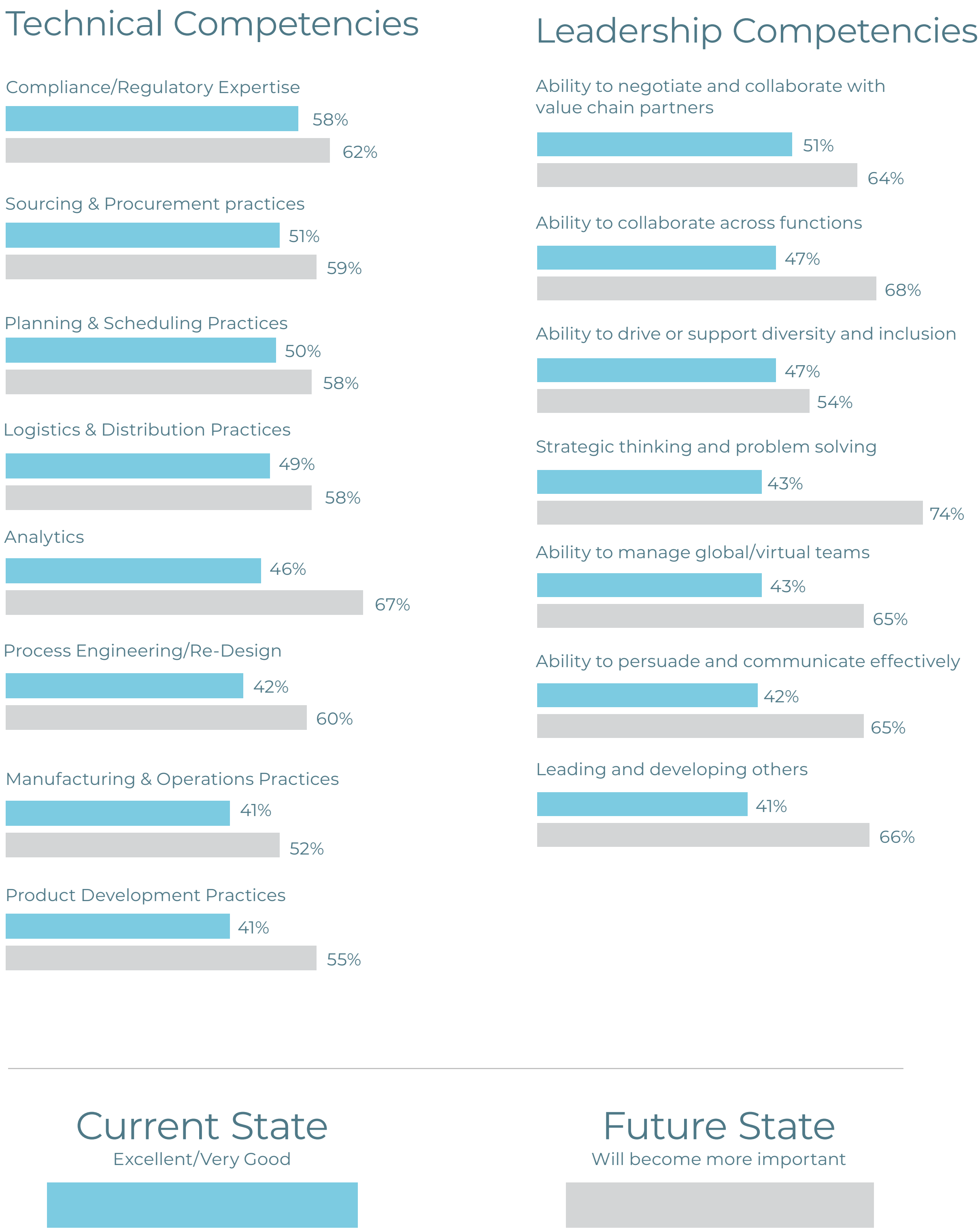
Only 38% of supply chain executives

are confident their supply chain organization has the competencies required today.

Source: Third Annual Supply Chain Survey, Deloitte Consulting

Supply Chain Professionals – An Emerging Skillset Required Today and Beyond

In their Third Annual Supply Chain Survey, Deloitte Consulting evaluated over 400 top supply chain leaders. The 2014 study focused on talent-related issues, including the current and future state of both leadership and technical job competency requirements in the supply chain component of the overall business - all have contributed to a new set of job skill requirements for supply chain professionals.


Technical Competencies
Compliance/Regulatory Expertise
58%
62%
Sourcing & Procurement practices
51%
59%
Planning & Scheduling Practices
50%
58%
Logistics & Distribution Practices
49%
58%
Analytics
46%
67%
Process Engineering/Re-Design
42%
60%
Manufacturing & Operations Practices
41%
52%
Product Development Practices
41%
55%
Leadership Competencies
Ability to negotiate and collaborate with value chain partners
51%
64%
Ability to collaborate across functions
47%
68%
Ability to drive or support diversity and inclusion
47%
54%
Strategic thinking and problem solving
43%
74%
Ability to manage global/virtual teams
43%
65%
Ability to persuade and communicate effectively
42%
65%
Leading and developing others
41%
66%
Current State
Excellent/Very Good
Future State
Will become more important

Whereas a supply chain professional's resume once focused squarely on the technical side of supply chain – today's supply chain leader is required to have a blend of both hard and soft job skills.

Short-term tactical execution has given way to strategic thinking and relationship building in terms of competencies prioritized by supply chain leaders. However, the supply of labor qualified to meet these new requirements is not currently at a level that can fulfill demand. Deloitte estimates that for every 6 supply chain professional positions available in the coming years, only 1 person will be qualified to fill the role. The American Trucking Association estimates a current truck driver shortage at nearly 40,000, with carriers needing to recruit roughly 100,000 new drivers per year to meet US freight demands. With such an imbalance of qualified people in the workforce - How do supply chain organizations build and retain a strong pipeline of talent?

A Healthy Company Culture:

Leading businesses recognize that a commitment to a healthy company culture may be the single biggest driver of success. Since 2009, the stock price of companies on the list of Fortune's "Best Places to Work" outperformed the S&P 500 by 84.2%. A healthy culture is one with a high level of employee engagement. When employees believe in the vision and mission of the company they work for, the company performs. According to a 2013 Gallup Report, companies with engaged employees outperformed those without by up to 202%. On the flipside, lack of employee engagement costs the US economy somewhere between $450 and $550 billion annually.

In addition to a high level of engagement, companies with a healthy workplace culture exhibit other common traits:

- A clear set of company values
- Employee alignment with these values
- Empowerment of employees to make decisions
- Employee understanding of long term company vision
- Shared commitment to make a difference in people's lives

It is obvious that the health of a company's culture directly correlates to business performance. Despite this, you won't often see culture in the list of metrics used to measure a company's operating success. How can companies ensure their workplace culture is one that attracts the best and brightest talent to drive supply chain success?

An Intentional Approach to Developing Culture

Workplace culture requires the same level of focus as other business processes and systems. Workplace culture can be measured, continuously developed, and sustained with the right intentional approach.

Commit to Culture
Culture happens in an organization. However, when leadership truly embraces workplace culture development, it becomes ingrained in the day-to-day operations, as well as the long-term strategic initiatives of the company.

Measure Culture
By placing an emphasis on quantifying culture, a company has an understanding of what's shaping the culture, both good and bad, and a baseline on which to improve.

Define Culture
In addition to the foundational mission, vision and values of a company, it is important to define and reward the behaviors required to ensure sustained success.

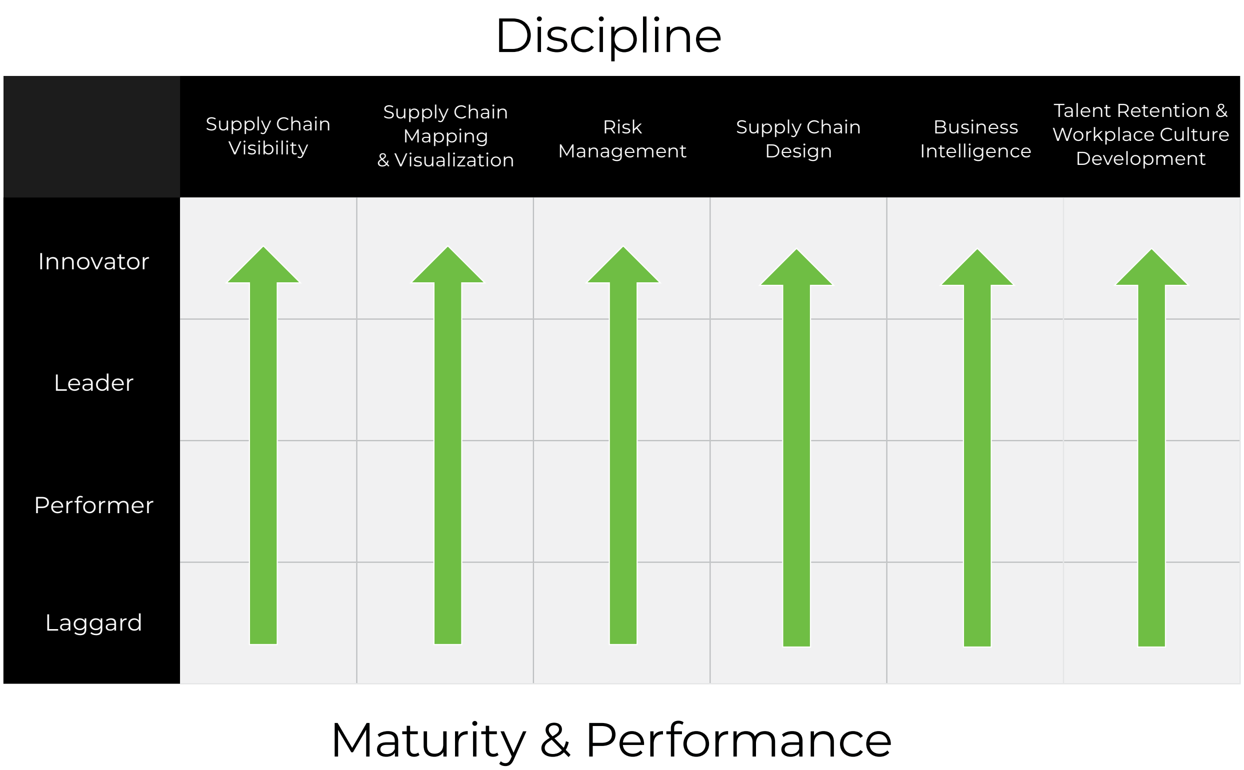
Align Culture
A healthy culture is developed by aligning the systems, processes, and people within a company to the overall values system. Action plans, built with solid cultural and operational metrics, are developed to improve upon areas identified. Formal leadership and skills development programs should focus on both hard and soft skills, to ensure individuals are well-equipped to lead. The true impact of cultural alignment is realized when companies use cultural alignment as a critical factor when partnering with service providers and even customers.

Sustain Culture
A culture of continuous improvement, usually grounded in Lean/Six Sigma principles, ensures the commitment to developing culture takes hold within the organization. Many successful 3PL-customer relationships are forged when both parties have strong cultures rooted in continuous improvement.

A healthy workplace culture is a must in order to attract, retain, and develop strong teams of supply chain professionals. As the industry continues to evolve, the leading supply chain organizations of tomorrow will be the ones committed to sustaining a culture that engages employees, while cultivating their technical and leadership abilities.

Maturity Model and The Supply Chain Performance Grader: Instant View™

The 6 Fundamental Supply Chain Disciplines Maturity Model depicted below, along with the corresponding assessment questions, is meant as a framework and guide for continuous improvement. There are very few retailers today (if any) that exhibit all of the attributes of Innovators, the highest level of maturity, but in light of all the trends, challenges, and opportunities discussed, that is the standard of excellence that retailers need to work toward.



The Supply Chain Performance Grader™ provides businesses with a free, comprehensive report that examines six areas critical to the performance of your supply chain.

LEGACY
SUPPLY CHAIN

The Role of Third-Party Logistics Providers

As discussed earlier, retailers need to take a broader, more strategic perspective of supply chain management, one that goes beyond defining supply chain excellence only in terms of cost reduction and control. The same holds true for how they view the role and value of third-party logistics (3PL) providers, and how they manage their 3PL relationships.

Most retailers put 3PLs in a very narrow box, viewing them simply as providers of transportation management, warehouse management, and other logistics services. But in reality, although transportation management and warehousing are core offerings, most leading 3PLs are also in the business of providing (among other things)...

Software applications, trading partner connectivity, and data quality management services

that provide customers with timely, accurate, and complete visibility to supply chain events, information, and intelligence.

Thought leadership and advice

so that customers can make smarter and faster decisions about their supply chain networks, strategy, and practices.

Risk management capabilities

to help customers minimize or eliminate supply chain risks, and more importantly, to help them recover from supply chain disruptions faster and with less impact.

In other words, 3PLs can play an important (and often leading) role in enabling the six fundamental supply chain disciplines discussed earlier.

Take supply chain risk management, for example. In a study conducted by Accenture last summer, 53 percent of the 1000+ companies surveyed ranked "Defined alternative Supply Chains/suppliers/partners that have capabilities to fill gaps during time of crisis" as the second most used approach to supply chain risk management.[22] Retailers should count 3PLs among the partners who can "fill in the gaps" when supply chain disruptions occur. And the number one approach cited by the survey respondents -- having "a risk management organization that monitors risk across the supply chain and deploys mitigating actions" — is certainly role that a 3PL with the right people, technology, and processes can also take.

Retailers also have to recognize that the traditional way of managing 3PL relationships—

viewing them as suppliers instead of partners, with short-term agreements focused on providing the lowest-cost solution -- is also becoming stale and limiting. To reach higher levels of performance and benefits, they have to move away from "What's in it for ME?" business relationships to "What's in it for WE?" In other words, retailers need to start walking the talk on collaboration and explore Vested relationships with their 3PL partners.

As Kate Vitasek, author of Vested Outsourcing: Five Rules That Will Transform Outsourcing, wrote in a Talking Logistics blog post last year:[23]

> "Fifteen years into the twenty-first century, I think it's time to revise the way companies think about and handle the RFP – especially for their strategic suppliers. What if instead of a Request for Proposal, the RFP became a Request for Partner™?
>
> Sound radical and impossible? I think not! Actually progressive companies that buy in to the Vested "what's-in-it-for-we" (WIIFWe) mindset are already doing it! They are looking for like-minded partners who want to collaborate together for the long-term win-win, based on trust and shared-value outcomes. For them, this is a modest proposal.
>
> There is plenty of research by Nobel Prize winners and books by leading academics demonstrating the benefits of collaboration and taking a "What's In It for We" approach to working with business partners. But to achieve those benefits, retailers have to take the first step: they have to place greater trust in their partners and see where it takes them."

Summary and Recommendations

“What Got You Here Won’t Get You There,” is the title of a best-selling business book by Marshall Goldsmith, but it also perfectly sums up the reality retailers face today. The supply chain and logistics processes and distribution networks that were built for yesterday’s consumer -- who shopped almost exclusively at stores and malls, and who didn’t mind waiting 3-5 days for delivery — will not get retailers to where they want to go, that is, to profitable growth. E-commerce and omni-channel fulfillment, along with the growing risks and complexities associated with global sourcing and international transportation, are forcing retailers to develop more flexible and responsive supply chains -- and it all begins with mastering the six fundamental supply chain disciplines that enable or influence virtually all supply chain functions and processes: Supply Chain Visibility, Supply Chain Mapping & Visualization, Supply Chain Risk Management, Supply Chain Design, Supply Chain Business Intelligence, and Talent Retention & Workplace Culture Development.

Retailers must strive to master these six disciplines, which will enable them to innovate and drive continuous improvement across their supply chains, and also pave the way to achieving profitable growth.

Recommendations

- Run The Supply Chain Performance Grader™ **here** to see how your supply chain can improve across 25+ measures.
- Review and discuss the assessment questions for the six fundamental supply chain disciplines with your cross-functional team, including Logistics, Sourcing, Store Operations, and IT.
- Determine which areas require the most improvement and prioritize them
- Identify key partners, including third-party logistics providers, who can assist you, or even take the lead role, in strengthening your capabilities across the six disciplines.
- Develop an action plan and timeline to execute, which should include projects that can be executed within a year or less, with measurable goals and benefits, as well as longer-term projects that might require larger investments in time, money, and resources, but would also deliver greater long-term benefits.

Biographies

Mike Glodziak
President, LEGACY Supply Chain Services

Michael Glodziak currently serves as President of LEGACY Supply Chain Services. He joined LEGACY in 2013, after serving as President of Vitran Supply Chain Operations beginning in 2004. Prior to that, Glodziak served as a principal with Tompkins Associates, where he managed large supply chain re-engineering projects in Mexico, the United States, and Canada.

Glodziak has over 30 years' of leadership experience in North American supply chain management and design, primarily serving Fortune 100 retailers sourcing from off-shore. His ability to identify and seamlessly implement flexible, dynamic solutions crafted from sound engineering principles has improved supply chain flows and significantly reduced operating costs for customers. Glodziak received his degree from Mohawk College in Hamilton in Industrial Engineering Technology.

Rick Blasgen
President and CEO, CSCMP

Rick D. Blasgen currently serves as the president and chief executive officer of the Council of Supply Chain Management Professionals (CSCMP) in Lombard, Illinois, USA. He began his career with Nabisco, where he held various logistics positions of increasing responsibility in inventory management, order processing, and transportation and distribution center operations management. He became vice president, supply chain, at Nabisco in 1998, then vice president supply chain for Kraft in 2002. From 2003 until 2005, he served as senior vice president integrated logistics at ConAgra Foods. He earned his degree in business administration from Governors State University.

Biographies, Cont.

Adrian Gonzalez
Founder and President of Adelante SCM

Adrian Gonzalez is trusted advisor and leading industry analyst with more than 17 years of research experience in transportation management, logistics outsourcing, and other supply chain and logistics topics. He is the founder and president of Adelante SCM, a peer-to-peer learning and networking community for supply chain and logistics professionals. Adelante's services include Talking Logistics, an online video talk show and blog featuring thought leaders and newsmakers in the supply chain and logistics industry, and 3PL Briefings, a research service focused on providing supply chain executives with high-quality and trusted research, analysis, and briefings about the Third-Party Logistics (3PL) industry and leading practices in logistics outsourcing.

Prior to his current roles, Adrian held various leadership positions at ARC Advisory Group, Motorola, Polaroid, and Clare. Adrian speaks frequently at industry events and conferences and is regularly quoted in industry publications. He is also a member of the Council of Supply Chain Management Professionals and a LinkedIn Influencer with more than 28,000 followers.

Adrian has a B.S. degree in Materials Science and Engineering from Cornell University. He also earned a Graduate Certificate in Supply Chain Management from Northeastern University, where he has served as an adjunct instructor in their Executive MBA program.

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